Calendar No. 634

100TH CONGRESS *2d Session*	SENATE	REPORT 100-323

VETERANS' HOME LOAN PROGRAM IMPROVEMENTS ACT OF 1988

REPORT

OF THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

TO ACCOMPANY

S. 2049

APRIL 22 (legislative day, APRIL 11), 1988.—Ordered to be printed

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VETERANS' HOME LOAN PROGRAM IMPROVEMENTS ACT OF 1988

APRIL 22 (legislative day, APRIL 11), 1988.—Ordered to be printed

Mr. CRANSTON, from the Committee on Veterans' Affairs, submitted the following

REPORT

[To accompany S. 2049]

The Committee on Veterans' Affairs, to which was referred the bill (S. 2049) to establish an Independent National Commission on the Veterans' Administration Home Loan Guaranty Program; to amend title 38, United States Code, to authorize reductions in the interest rate on loans made by the Veterans' Administration to finance the sales of properties acquired by the Veterans' Administration as the result of foreclosures, and to establish creditworthiness requirements for assumptions of Veterans' Administration vendee loans; and for other purposes, having considered the same, reports favorably thereon with an amendment in the nature of a committee substitute and an amendment to the title, and recommends that the bill as amended do pass.

COMMITTEE AMENDMENTS

The amendments are as follows:

Strike out all after the enacting clause as follows:

[SECTION 1. SHORT TITLE.

[This Act may be cited as the "Veterans' Home Loan Program Improvements Act of 1988".

[SEC. 2. INDEPENDENT COMMISSION TO ASSESS THE VETERANS' ADMINISTRATION HOME LOAN GUARANTY PROGRAM.

[(a) ESTABLISHMENT AND MEMBERS.—(1) There is established an independent Commission on the Veterans' Administration Home Loan Guaranty Program (hereafter in this section referred to as the "Commission") to assess the Veterans' Administration Home Loan Guaranty Program under chapter 37 of title 38, United States Code.

[(2)(A) The Commission shall consist of nine voting members, none of whom may at the time of appointment be employees of the Federal Government and who shall be appointed, not later than April 30, 1988, by the Administrator of Veterans' Affairs in consultation with the chairmen and ranking minority members of the Committees on Veterans' Affairs of the Senate and of the House of Representatives (hereafter in this section referred to as the Committee".

[(B)(i) Four members of the Commission—

[(I) shall be broadly representative of the housing, home loan, and real estate and related industries, including real estate agents, mortgage bankers and other lending institutions which make Veterans' Administration-guaranteed loans, home builders, appraisers, and holders and servicers of Veterans' Administration-guaranteed loans; and

[(II) shall be selected on the basis of their knowledge of and experience in the housing, home loan, and real estate and related industries and the Veterans' Administration Home Loan Guaranty Program.

[(ii) Five members shall be representative of (I) the general public (and not be affiliated in any way with the interests described in subdivision (i)) and shall be selected from academic and commercial enterprises based on their knowledge and experience in areas pertinent to the work of the Commission and (II) veterans' service organizations. Not less than three of such five members shall be selected as representatives of the general public pursuant to clause (I).

[(3)(A) The Administrator of Veterans' Affairs, the chairmen and ranking minority members of the Committees, the Commissioner of the Federal Housing Administration and the Chairman of the Federal National Mortgage Association (or, in the case of any such individual, a designee of such individual) shall be ex officio, nonvoting members of the Commission.

[(B) The Administrator shall designate two employees of the Veterans' Administration serving in loan guaranty divisions in Veterans' Administration regional offices as ex officio nonvoting members of the Commission and may designate additional ex officio nonvoting members from other Federal Government agencies or government-sponsored entities.

[(4)(A) The Administrator shall designate to chair the Commission a member from among the voting members of the Commission who is appointed pursuant to paragraph (2)(B)(ii).

[(B) The chairman of the Commission, with the concurrence of the Commission, shall appoint an executive director, who may not at the time of appointment be an employee of the Veterans' Administration and who shall be the chief executive officer of the Commission and shall perform such duties as are prescribed by the Commission.

[(C) The Administrator shall furnish the Commission with such professional, technical, and clerical staff and services and administrative support as the Commission determines necessary for it to carry out the provisions of this section effectively.

[(b) FIRST REPORT.—(1) Not later than twelve months after the date on which at least five members of the Commission have been appointed, the Commission shall submit to the Administrator and the Committees a report on the Commission's findings and recommendations on the matters described in paragraph (2).

[(2) The report required by paragraph (1) shall include the Commission's findings, views, and recommendations on the following matters:

[(A) Ways to reduce default and foreclosure rates on Veterans' Administration home loans made or guaranteed under chapter 37 of title 38, United States Code.

[(B) Ways to minimize Veterans' Administration property acquisition, management, and disposition costs resulting from foreclosures on such loans.

[(C) The management and disposition of loans made by the Veterans' Administration to finance the sale of properties acquired by the Veterans' Administration as the result of such foreclosures.

[(D) The causes of increases in the ten years preceding the enactment of this Act in Veterans' Administration Home Loan Guaranty Program costs and ways to reduce such costs.

[(E) Ways to improve the solvency of the Veterans' Administration's Loan Guaranty Revolving Fund.

[(F) The need for improvement of program benefits and assistance to veterans participating or desiring to participate in the Home Loan Guaranty Program.

[(G) The desirability and feasibility of coordinating Veterans' Administration policies (both statutory and administrative) and practices, particularly in the

areas of property acquisition, management, and disposition, with the policies and practices of other Federal Government agencies and government-sponsored entities.

[(H) Such other matters relating to the administration of chapter 37 of title 38, United States Code, by the Veterans' Administration as (i) the Commission considers appropriate, or (ii) are suggested by the Administrator or, concurrently, by the chairmen and ranking minority members of the Committees.

[(c) ADMINISTRATOR'S INTERIM AND FINAL REPORTS.—(1) Not later than two months after the date on which the Commission's report is submitted under subsection (b), the Administrator, after consultation with the Commission, shall submit an interim report to the Committees. The interim report shall contain—

[(A) the Administrator's views on the desirability, feasibility, and cost of implementing each of the Commission's recommendations, and the actions taken or planned with respect to the implementation of each such recommendation;

[(B)(i) the Administrator's views on any legislation or regulations proposed by the Commission, (ii) the Administrator's views on the need for any alternative or additional legislation or regulations to implement the Commission's recommendations, (iii) the Administrator's recommendations for any such alternative or additional legislation, (iv) the proposed text of any regulations referred to in subclause (i) or (ii) which the Administrator considers necessary and the proposed text of any legislation referred to in such subclause which is recommended by the Administrator, and (v) a cost estimate for the implementation of any regulations and legislation referred to in such subclause; and

[(C) any other proposals that the Administrator considers appropriate in light of the Commission's report.

[(2) Not later than six months after the date on which the Commission's report is submitted under subsection (b), the Administrator shall submit a final report to the Committees. The final report shall include the actions taken with respect to the recommendations of the Commission and any further recommendations the Administrator considers appropriate.

[(d) TERMINATION.—The Commission shall terminate ninety days after the date on which the Administrator submits the final report required by subsection (c)(2).

[SEC. 3. INTEREST RATE REQUIREMENTS FOR VENDEE LOANS.

[Section 1816(d) of title 38, United States Code, is amended by adding at the end the following new paragraph:

["(7) The Administrator shall make a loan to finance the sale of real property described in paragraph (1) of this subsection at an interest rate that is lower than the prevailing mortgage market interest rate in areas where, and to the extent, the Administrator determines, in light of prevailing conditions in the real estate market involved, that such lower interest rate is necessary in order to market the property competitively and is in the interest of the long-term stability and solvency of the Veterans' Administration Loan Guaranty Revolving Fund established by section 1824(a) of this title.".

[SEC. 4. CREDITWORTHINESS DETERMINATION WITH RESPECT TO ASSUMPTION OF VENDEE LOAN.

[Section 1817A of title 38, United States Code, is amended—

[(1) in subsection (a)(1), in the matter preceding clause (A), by striking out "guaranteed, insured, or direct housing loan obtained by a veteran" and inserting in lieu thereof "loan guaranteed, insured, or made"; and

[(2) by amending subsection (f) to read as follows:

["(f) This section shall apply—

["(1) in the case of loans other than loans to finance the purchase of real property described in section 1816(d)(1) of this title, only to loans for which commitments are made on or after March 1, 1988; and

["(2) in the case of loans to finance the purchase of such property, only to loans which are closed on or after April 15, 1988.".]

And insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Veterans' Home Loan Program Improvements Act of 1988".

SEC. 2. INDEPENDENT COMMISSION TO ASSESS THE VETERANS' ADMINISTRATION HOME LOAN GUARANTY PROGRAM.

(a) ESTABLISHMENT AND MEMBERS.—(1) There is established an independent Commission on the Veterans' Administration Home Loan Guaranty Program (hereafter

in this section referred to as the "Commission") to assess the Veterans' Administration Home Loan Guaranty Program under chapter 37 of title 38, United States Code.

(2)(A) The Commission shall consist of nine voting members, none of whom may at the time of appointment be employees of the Federal Government and who shall be appointed, not later than April 30, 1988, by the Administrator of Veterans' Affairs in consultation with the chairmen and ranking minority members of the Committees on Veterans' Affairs of the Senate and of the House of Representatives (hereafter in this section referred to as the Committee".

(B)(i) Four members of the Commission—

(I) shall be broadly representative of the housing, home loan, and real estate and related industries, including real estate agents, mortgage bankers and other lending institutions which make Veterans' Administration-guaranteed loans, home builders, appraisers, and holders and servicers of Veterans' Administration-guaranteed loans; and

(II) shall be selected on the basis of their knowledge of and experience in the housing, home loan, and real estate and related industries and the Veterans' Administration Home Loan Guaranty Program.

(ii) Five members shall be representative of (I) the general public (and not be affiliated in any way with the interests described in subdivision (i)) and shall be selected from academic and commercial enterprises based on their knowledge and experience in areas pertinent to the work of the Commission and (II) veterans' service organizations. Not less than three of such five members shall be selected as representatives of the general public pursuant to clause (I).

(3)(A) The Administrator of Veterans' Affairs, the chairmen and ranking minority members of the Committees, the Commissioner of the Federal Housing Administration, the Chairman of the Federal National Mortgage Association, and the President of the Government National Mortgage Association, (or, in the case of any such individual, a designee of such individual) shall be ex officio, nonvoting members of the Commission.

(B) The Administrator shall designate two employees of the Veterans' Administration serving in loan guaranty divisions in Veterans' Administration regional offices as ex officio nonvoting members of the Commission and may designate additional ex officio nonvoting members from other Federal Government agencies or Federal Government-sponsored entities.

(4)(A) The Administrator shall designate to chair the Commission a member from among the voting members of the Commission who is appointed pursuant to paragraph (2)(B)(ii).

(B) The chairman of the Commission, with the concurrence of the Commission, shall appoint an executive director, who may not at the time of appointment be an employee of the Veterans' Administration and who shall be the chief executive officer of the Commission and shall perform such duties as are prescribed by the Commission.

(C) The Administrator shall furnish the Commission with such professional, technical, and clerical staff and services and administrative support as the Commission determines necessary for it to carry out the provisions of this section effectively.

(b) FIRST REPORT.—(1) Not later than twelve months after the date on which at least five members of the Commission have been appointed, the Commission shall submit to the Administrator and the Committees a report on the Commission's findings and recommendations on the matters described in paragraph (2).

(2) The report required by paragraph (1) shall include the Commission's findings, views, and recommendations on the following matters:

(A) Ways to reduce default and foreclosure rates on Veterans' Administration home loans made or guaranteed under chapter 37 of title 38, United States Code.

(B) Ways to minimize Veterans' Administration property acquisition, management, and disposition costs resulting from foreclosures on such loans.

(C) The management and disposition of loans made by the Veterans' Administration to finance the sale of properties acquired by the Veterans' Administration as the result of such foreclosures.

(D) The causes of increases in the ten years preceding the enactment of this Act in Veterans' Administration Home Loan Guaranty Program costs and ways to reduce such costs.

(E) Ways to improve the solvency of the Veterans' Administration's Loan Guaranty Revolving Fund.

(F) The need for improvement of program benefits and assistance to veterans participating or desiring to participate in the Home Loan Guaranty Program.

(G) The desirability and feasibility of coordinating Veterans' Administration policies (both statutory and administrative) and practices, particularly in the areas of property acquisition, management, and disposition, with the policies and practices of other Federal Government agencies and Federal Government-sponsored entities.

(H) Such other matters relating to the administration of chapter 37 of title 38, United States Code, by the Veterans' Administration as (i) the Commission considers appropriate, or (ii) are suggested by the Administrator or, concurrently, by the chairmen and ranking minority members of the Committees.

(c) ADMINISTRATOR'S INTERIM AND FINAL REPORTS.—(1) Not later than two months after the date on which the Commission's report is submitted under subsection (b), the Administrator, after consultation with the Commission, shall submit an interim report to the Committees. The interim report shall contain—

(A) the Administrator's views on the desirability, feasibility, and cost of implementing each of the Commission's recommendations, and the actions taken or planned with respect to the implementation of each such recommendation;

(B)(i) the Administrator's views on any legislation or regulations proposed by the Commission, (ii) the Administrator's views on the need for any alternative or additional legislation or regulations to implement the Commission's recommendations, (iii) the Administrator's recommendations for any such alternative or additional legislation, (iv) the proposed text of any regulations referred to in subclause (i) or (ii) which the Administrator considers necessary and the proposed text of any legislation referred to in such subclause which is recommended by the Administrator, and (v) a cost estimate for the implementation of any regulations and legislation referred to in such subclause; and

(C) any other proposals that the Administrator considers appropriate in light of the Commission's report.

(2) Not later than six months after the date on which the Commission's report is submitted under subsection (b), the Administrator shall submit a final report to the Committees. The final report shall include the actions taken with respect to the recommendations of the Commission and any further recommendations the Administrator considers appropriate.

(d) TERMINATION.—The Commission shall terminate ninety days after the date on which the Administrator submits the final report required by subsection (c)(2).

SEC. 3. INTEREST RATE REQUIREMENTS FOR VENDEE LOANS.

Section 1816(d) of title 38, United States Code, is amended by adding at the end the following new paragraph:

"(7) The Administrator shall make a loan to finance the sale of real property described in paragraph (1) of this subsection at an interest rate that is lower than the prevailing mortgage market interest rate in areas where, and to the extent, the Administrator determines, in light of prevailing conditions in the real estate market involved, that such lower interest rate is necessary in order to market the property competitively and is in the interest of the long-term stability and solvency of the Veterans' Administration Loan Guaranty Revolving Fund established by section 1824(a) of this title.".

SEC. 4. CREDITWORTHINESS DETERMINATIONS AND FEES WITH RESPECT TO ASSUMPTIONS OF VENDEE LOANS.

Section 1817A of title 38, United States Code, is amended—

(A) by striking out "If" and inserting in lieu thereof "Except as provided in subsection (f) of this section, if"; and

(B) by striking out "guaranteed, insured, or direct housing loan obtained by a veteran" and inserting in lieu thereof "loan guaranteed, insured, or made"; and (2) by amending subsection (f) to read as follows:

"(f)(1) This section shall apply—

"(A) in the case of loans other than loans to finance the purchase of real property described in section 1816(d)(1) of this title, only to loans for which commitments are made on or after March 1, 1988; and

"(B) in the case of loans to finance the purchase of such property, only to loans which are more than 45 days after the date of the enactment of the Veterans' Home Loan Program Improvements Act of 1988.

"(2) This section shall not apply to a loan which the Administrator has sold without recourse.".

Amend the title so as to read:

A bill to establish an independent Commission on the Veterans' Administration Home Loan Guaranty Program; to amend title 38, United States Code, to authorize

reductions in the interest rate on loans made by the Veterans' Administration to finance the sales of properties acquired by the Veterans' Administration as the result of foreclosures and to establish creditworthiness requirements and require a 0.5-percent fee for assumptions of such loans other than those sold without recourse; and for other purposes.

INTRODUCTION

S. 2049 was introduced on February 4, 1988, by the Chairman of the Committee, Senator Alan Cranston, for himself and for the Ranking Minority Member, Senator Frank H. Murkowski, and Senators Lloyd Bentsen and Phil Gramm. Joining later as a cosponsor was Committee Member Dennis DeConcini. As introduced, S. 2049 would have, first, provided for the creation of an independent Commission on the Veterans' Administration Home Loan Guaranty Program to be charged with assessing the status of the program, analyzing the problems the program currently is facing, evaluating possible solutions to those problems, and recommending changes to improve the financial stability and solvency of the program and the benefits and service offered to veterans; second, required the VA to offer below-market interest rates on loans (known as "vendee loans") it makes to finance the sales of foreclosed properties, where and to the extent the Administrator determines, in light of prevailing conditions in the real estate market involved, that the lower interest rate is necessary in order to market the property competitively and is in the interest of the long-term stability and solvency of the Loan Guaranty Revolving Fund; and, third, extended the creditworthiness requirements and 0.5-percent fee applicable to assumptions of VA-guaranteed loans—pursuant to provisions recently enacted in Public Law 100–198—to vendee loans.

On March 4, 1988, the Committee held a hearing, chaired by Chairman Cranston, to receive testimony on the fiscal year 1989 budget for veterans programs and on certain legislation, including S. 2049. Testimony was received on S. 2049 from the Administrator of Veterans' Affairs, Thomas K. Turnage, and other representatives of the Veterans' Administration; representatives of The American Legion, the AMVETS, the Disabled American Veterans, the Paralyzed Veterans of America, the Veterans of Foreign Wars, and the Vietnam Veterans of America; Ms. Jennie L. Stabile, Chair of the Real Estate Finance Committee, National Association of Realtors; Mr. Robert M. O'Toole, Staff Vice President, Residential Finance and Government Agency Relations, Mortgage Bankers Association of America; and Ms. Shirley McVay-Wiseman, First Vice President, National Association of Home Builders.

After carefully reviewing the testimony from the hearing, the Committee met in open session on March 17, 1988. At that meeting, Chairman Cranston and Ranking Minority Member Murkowski proposed that the Committee approve S. 2049 with two amendments which, first, would make the Government National Mortgage Association (GNMA) an ex officio member of the Commission on the Veterans' Administration Home Loan Program, rather than leaving its appointment to the discretion of the Administrator; and, second, in the cases of assumptions of vendee loans sold without recourse, would not impose (a) a requirement to apply the same cred-

itworthiness standards and procedures as are required in cases of assumptions of VA-guaranteed loans, or (b) the 0.5-percent fee imposed on such assumptions.

The Committee voted to report S. 2049 favorably to the Senate with an amendment in the nature of a substitute derived from the provisions of S. 2049 as introduced and the amendments proposed by Senators Cranston and Murkowski.

Summary of S. 2049 as Reported

S. 2049 as reported (hereinafter referred to as the "Committee bill") contains freestanding provisions and amendments to chapter 37 of title 38, United States Code, which would:

1. Create an independent Commission on the Veterans' Administration Home Loan Program to assess the status of the program and evaluate the problems the program currently is facing, and recommend solutions to those problems and changes to improve the financial solvency and stability of the program and program benefits and services to veterans.

2. Require the VA to offer below-market interest rates on the loans (known as "vendee loans" which it makes to finance its sales of foreclosed properties) where and to the extent the Administrator determines, in light of prevailing conditions in the real estate market involved, that the lower rate is necessary in order to market the property competitively and is in the interest of the long-term stability and solvency of the Loan Guaranty Revolving Fund.

3. Extend the creditworthiness requirements and 0.5-percent fee applicable to assumptions of VA-guaranteed loans—pursuant to provisions recently enacted in Public Law 100–198—to vendee loans with the exception of those sold without recourse.

Discussion

BACKGROUND

The VA home loan guaranty program, established by the Servicemen's Readjustment Act of 1944 (Public Law 346, 78th Congress), was originally designed to assist veterans returning home from World War II who, due to their military service, had been unable to establsih the credit history necessary to obtain a home mortgage. Since 1944, the program has guaranteed loans totaling more than $300 billion, helping more than 12.7 million veterans to purchase homes. In fiscal year 1987, the VA quaranteed 479,491 home loans totaling a record $34.9 billion.

The loan guaranty program is financed primarily through the Loan Guaranty Revolving Fund (LGRF), which funds the payment of guaranties, the acquisition of foreclosed properties, and certain administrative expenses of the loan guaranty program. LGRF receipts are derived from the sales of foreclosed properties, a one-percent fee charged to veterans and service persons (other than those with compensable service-connected disabilities or surviving spouses of veterans and service persons who died from a service-connected disability) obtaining VA-guaranteed home loans and to persons receiving direct VA loans (known as vendee loans) to fi-

nance their purchases of properties acquired by the VA upon liquidation sales, transfers from the Direct Loan Revolving Fund, and appropriations.

Traditionally, for the vast majority of VA-guaranteed loans the cost to the Government of providing the guaranty has been quite small and the benefit to veterans and to society quite significant. Through fiscal year 1986, 7.5 million guaranteed loans, totaling $102.7 billion, have been paid in full. From its inception in 1944 until 1961, the home loan guaranty program was funded through appropriations which totaled only $730 million to the VA's readjustment benefits account—an average of $42.9 million per year for the 5.6 million loans made during those 17 years.

More recently, however, high default and foreclosure rates on properties guaranteed by VA loans, coupled with a large VA inventory of foreclosed homes acquired at liquidation sales, especially in areas of the country where economic distress had resulted in decling real estate values, have threatened the viability of the program and have necessitated appropriations in fiscal years 1987 and 1988 alone of over $1 billion including the Administration's request for an FY 1988 supplement appropriation of $526 million.

Congress and the VA have taken steps to address some of the problems the program now is facing. In the Deficit Reduction Act of 1984 (Public Law 98-369), Congress enacted provisions establishing criteria for determining when the VA must pay the guaranty on a foreclosed property securing a VA-guaranteed loan instead of acquiring the property at the liquidation sale, and limiting the proportion of vendee loans which the VA may make. Additionally, the Veterans' Benefits Improvement and Health Care Authorization Act of 1986 (Public Law 99-576)—based on legislation (S. 1887) developed by the Committee—required the VA to establish credit underwriting criteria in accordance with those generally accepted by commercial institutions for lenders to follow in evaluating applications for VA home loans, to establish uniform qualifications to be met by appraisers as well as to develop lists of approved appraisers who may appraise property to be used as security for a VA-guaranteed loan, and to identify and compile information on common factors contributing to foreclosures on property securing VA-guaranteed loans, among other program improvements.

More recently in 1987, Chairman Cranston and Ranking Minority Member Murkowski developed a comprehensive VA home loan measure, S. 1801. Major provisions of the bill—as enacted in Public Law 100-198 on December 22, 1987—provide direction for significant steps to improve the financial solvency of the VA home loan program and reduce its dependency on taxpayers' funds while also improving the program benefits available to veterans and maintaining the basic purposes of the program.

In addition, on February 1, 1988, Chairman Cranston and Ranking Minority Member Murkowski, along with Senators Bentsen and Gramm, introduced S. 2022, which was enacted as Public Law 100-253 on February 29, 1988. That law allows the Administrator to reduce or waive the 5-percent downpayment on vendee loans (which had been enacted in Public Law 100-198) to the extent the Administrator determines necessary in order to market competi-

tively the property involved, and made certain technical corrections to provisions enacted in Public Law 100–198.

The Committee notes that it is not realistic to expect that a benefits program will incur no costs. Certainly, however, when the cost of a program increases as dramatically as the cost of the home loan program has, it is essential for Congress to take a close look to determine the reasons for the increase and to take steps to minimize program costs.

At the Committee's March 4 hearing, testimony concerning S. 2049 from the VA, veterans' service organizations, individual veterans, and various representatives from the mortgage banking, home builder, and real estate communities generally supported S. 2049's proposed creation of an independent Commission to assess the home loan program. The VA opposed the provision to require the VA of offer below-market interest rates on vendee loans under certain circumstances in order to competitively market properties and noted that, as an alternative to reducing interest rates, the sales price on foreclosed properties could be reduced to promote sales. The VA supported the general concept of the provision to extend the creditworthiness requirements and fee imposed on assumptions of VA-guaranteed loans to assumptions of vendee loans, but urged that approval of the assumption be required only in the case of vendee loans sold with recourse.

The other witnesses at the hearing generally supported the provisions of S. 2049. For example, the Paralyzed Veterans of America in its written testimony for the March 4 hearing, stated that the "creation of an Independent Commission on the VA Home Loan Program could not come early enough. * * * The expertise afforded by such a Commission is precisely what [the] program needs." Similarly, the Mortgage Bankers Association stated that the "Commission would be an opportunity to explore these [various home loan] issues, as well as many others facing the program."

INDEPENDENT COMMISSION ON VA HOME LOAN PROGRAM

Section 2 of the Committee bill would, in a freestanding provision, create an independent Commission on the Veterans' Administration Home Loan Program (hereinafter referred to as the "Commission").

Background

In recent years, the home loan program has experienced significantly-increased numbers of foreclosures, resulting in a significant increase in program costs. The number of foreclosures on VA-guaranteed loans rose from 28,096 in fiscal year 1985 to 43,353 in fiscal year 1987. Moreover, the cost per foreclosure increased as well; the average amount paid to lenders under the guaranty rose from $4,752 in fiscal year 1983 to $11,182 in fiscal year 1987, and the average loss to the VA per property rose from approximately $9,000 in fiscal year 1983 to over $15,000 in fiscal year 1987. And, despite the 1984 enactment of section 2512(c) of the Deficit Reduction Act of 1984 (Public Law 98–369), which was "designed to ensure that acquisitions are not made where they would result in net costs to the VA (after re-sale) in excess of what the VA would pay under

the guaranty if it did not acquire the property (the so-called "no-bid formula"), VA property acquisitions increased from 21,411 in fiscal year 1983 to 30,906 in fiscal year 1987 and are expected to increase to 38,400 in fiscal year 1988.

Consequently, the LGRF has incurred significant deficits requiring infusions of funds from various sources. For fiscal year 1988, $389.8 million was appropriated to the LGRF in the Continuing Resolution for fiscal year 1988 (Public Law 100-203) and the Administration has requested a supplemental fiscal year 1988 appropriation of $526 million. In March of this year, in order to avoid total depletion of the LGRF, the VA sought and received permission to transfer into the LGRF $200 million from the readjustment benefits and compensation and pension accounts. The VA's fiscal year 1989 budget requests $658 million to meet LGRF funding requirements. In addition, the VA has scheduled 14 auctions of VA-acquired homes from April 8, 1988, through June 12, 1988, and has indicated additional auctions, to be held by mid-July, may be scheduled. It appears that the primary purpose of these actions is to create an immediate cash infusion for the LGRF.

A number of factors contributed to the rise in foreclosure rates and the ensuring greater losses under the VA loan guaranty program. Some are factors over which the VA has no control, including general economic conditions in certain areas of the country, such as has occurred in states where oil production plays an important role in the economy. Where the no-bid formula results in continued acquisition of properties in declining real estate markets, the VA is faced with an escalating inventory of homes declining in value. But ways must be found to reduce the impact of such factors on the program. Increased program protections must also be developed to help minimize the impact of economic downturns, which could strike any area of the country.

Moreover, the VA can have some impact on certain other factors which are contributing to the increasing losses the program is suffering. For example, overestimates in appraisals result in the VA providing—and ultimately paying—guaranties based on selling prices that exceed fair market value. Delays in the foreclosure process result in the accrual of additional interest on the guaranteed loan, thereby increasing both the VA's debt to the lender and the veteran's debt to the VA. Inadequate servicing of loans when the veteran is in default appears to have resulted in defaults that might have been curable but resulted in forclosures instead. Deficient loan underwriting standards can result in loans guaranteed for veterans unable to meet their debts. Delays in obtaining titles from lenders also increase the VA's costs by delaying the VA's ability to list a property for sale.

Increasing program costs parallel the increasing debt which veterans have incurred through the foreclosure of homes purchased with VA-guaranteed loans. For the sake of both the veterans using or wishing to use their home loan benefits, as well as the program itself, new approaches and perspectives are needed to try to determine the reasons for the great increase in program costs and to take steps to minimize them.

The Committee believes that the present state of the home loan program requires the intensive, focused, objective scrutiny—re-

moved from the day-to-day pressures of politics and program administration—that an independent commission of experts, consumers, and program participants can provide. Their experties, insights, and advice can aid the Congress' efforts to ensure that economic downturns at either the national or local level do not reduce the opportunities for veterans to use the home loan benefits they earned in service to our country.

Committee bill

Section 2 of the Committee bill thus would create an independent Commission on the Veterans' Administration Home Loan Guaranty Program. The Commission would be charged with carefully assessing the status of the program, analyzing the problems—particularly the recent program-cost and foreclosure-rate increases—the program currently is facing, evaluating possible solutions to those problems, and recommending changes to improve the financial stability and solvency of the program and the benefits and services offered to veterans. The Commission would be modeled after the Commission of Veterans' Education Policy, established by section 320 of the Veterans' Benefits Improvement and Health-Care Authorization Act of 1986 (Public Law 99-576), which is currently carrying out its statutory mandate to assess VA educational assistance programs.

The Administrator of Veterans' Affairs, in consultation with the chairmen and ranking minority members of the Senate and House Veterans' Affairs Committees—each of whom (or their designees), as well as the Administrator (or the Administrator's designee), would participate in the Commission's study and deliberations as nonvoting, ex officio members—would select the nine voting members of the Commission. These nine members, none of whom could be Federal Government employees at the time of their appointments, would be chosen on the basis of their knowledge of the home loan program and general experience and knowledge relating to the mission of the Commission. Four members would be chosen specifically because of their expertise in the housing, home loan, real estate, and related fields relevant to the program. Five of the members would be representative of, first, the general public and would be selected from academic and commercial enterprises based on their knowledge of and experience in areas pertinent to the work of the Commission and, second, the veterans' service organizations.

The combined expertise of representatives from those industries, each of which plays a vital role in the home loan program, as well as of representatives of the veterans who use the program, and the perspective of the public members should make possible a comprehensive, in-depth examination of the program. Two employees who work in the loan guaranty division of a VA regional office also would be selected to be ex officio members of the Commission in order to ensure that it has available to it the viewpoint of those who are best able to see what is happening "in the field".

Additionally, the Committee believes it will be desirable for the Commission to evaluate the desirability and feasibility of coordinating certain VA policies (both statutory and administrative) and practices—especially in the areas of the acquisition, management,

and disposition of foreclosed properties—with those of other Federal Government agencies and Federal Government-sponsored entities, such as the Federal Housing Administration, the Government National Mortgage Association, and the Federal National Mortgage Corporation. Therefore, the Committee bill would provide that representatives of those entities would serve on the Commission in a non voting, ex officio capacity and that representatives of other Federal agencies or entities could, at the Administrator's discretion be added as non voting, ex officio members.

The Committee amended the bill as introduced, in line with a recommendation by the VA and other witnesses, to specify GNMA membership on the Commission, since GNMA guarantees the timely payment of principal and interest on mortgage-backed securities collateralized by VA-guaranteed loans and thus has an interest in the financial stability of the home loan program.

Under the Committee bill, the Commission would have one year to submit to the Administrator and the Committees a report on its findings and recommendations. The Administrator would then be required to evaluate that report and, after consultation with the Commission, submit to the Committee, not later than two months after receiving the report from the Commission, an interim report containing the Administrator's views on the Commission's recommendations. To help ensure that the Commission's recommendations are given serious consideration by the Administrator and, where appropriate, implemented, the Administrator would be required to submit to the Congress a follow-up report 6 months after the Commission's report, on the actions taken with respect to the recommendations of the Commission and any further recommendations which the Administrator considers appropriate.

INTEREST RATE ON VENDEE LOANS

Section 3 of the Committee bill would amend section 1818(d) of title 38, United States Code, relating to the making and sale of vendee loans, to require the VA in certain circumstances to offer an interest rate on vendee loans which is lower than the prevailing mortgage market interest rate. A lower rate would be required where and to the extent the Administrator determines, in light of prevailing conditions in the real estate market involved, that the reduced rate is necessary in order to market the property competitively and is in the interest of the long-term stability and solvency of the LGRF.

Background

When the VA sells foreclosed properties it has acquired as the result of defaults on VA-guaranteed loans the purchase may be either for cash or financed by the VA. Buyers of such properties who pay cash usually will obtain a loan from a conventional lender. Alternatively, if the buyer qualifies under the VA's credit-underwriting criteria, the VA may finance the transaction by extending the buyer a loan-known as a "vendee loan". Vendee loans are not limited to veterans; in fact, it is believed that the vast majority of buyers receiving vendee loans are not veterans.

Vendee loans currently are generally made at favorable interest rates which, as a matter of practice, usually correspond to the ceiling on interest rates for VA-guaranteed loans, in order to facilitate the sale of foreclosed properties held by the VA. The 5-percent downpayment requirement on such loans—enacted in Public Law 100–198—compares very favorably with the usual 20-percent downpayment required in most areas in the conventional market. Moreover, Public Law 100–253 provided that the 5-percent downpayment can be reduced or waived to the extent the Administrator determines necessary in order to market competitively the property involved.

In general, 95-percent financing, combined with interest rates which generally are at the lower end of the prevailing market rates, and the 1-percent fee, represent competitive financial terms sufficient to enhance the attractiveness of VA properties.

However, in economically-depressed areas, tremendous increases in the foreclosure rate and depreciating property values have resulted in substantial VA inventories of unsold foreclosed properties. In Houston, where the largest number of VA foreclosed properties is concentrated, the inventory of foreclosed properties from all sources has more than doubled to over 200,000 in the past 3 years. The VA's Houston area inventory alone as of the end of March 1988, included 6050 properties, nearly 25 percent of the VA's total nationwide inventory.

In certain areas of the country, competition among sellers of foreclosed properties has led many of them to offer sales inducements in the form of advantageous financing terms. In Houston, for example, many sellers, including Federal Government agencies such as the Federal Housing Authority, are offering below-market-interest rate loans. Sellers who are not themselves lenders will often "buy-down" the interest rate on the loan—that is, provide a subsidy of the monthly mortgage payment sufficient to have the same effect as a substantial reduction in the interest rate. In such areas, where a VA-foreclosed property may be virtually identical to a conventional lender's property down the block, favorable financing terms may be the deciding factor for the buyer. The VA must have effective sales tools available if it is to reduce an inventory of properties which had grown from 9,023 in fiscal year 1980 to 25,172 by the end of March 1988.

Committee bill

The Commission bill would require the offering of below-market interest rates on vendee loans when and to the extent needed to market foreclosed properties competitively.

The Committee recognizes that, although lower-interest-rate loans may be necessary to sell properties in some areas, they also reduce the VA's income over the term of the loan. Additionally, the lower yield provided by such loans reduces their attractiveness to buyers in the secondary market. Therefore, the Committee bill provides that below-market interest rates may be offered only when that would be in the interest of the long-term stability and solvency of the LGRF—that is, when the costs associated with lowering the interest rate would be less than the cost of either reducing the purchase price of the property to the extent necessary to

sell the property or of continuing to hold and maintain the property.

ASSUMPTIONS OF WITH-RECOURSE VENDEE LOANS

Section 4 of the Committee bill would, effective with respect to loans closed more than 45 days after enactment, amend section 1817A of title 38, to relating to assumptions of VA-guaranteed or direct housing loans, to extend the creditworthiness requirements and 0.5-percent fee applicable to assumptions of VA-guaranteed loans—new requirements enacted in Public Law 100-198 on December 22, 1987—to vendee loans sold by the VA with recourse, that is, with the VA being obligated to buy the loan back (for the amount owing under the note) in case of default.

Background

Section 1817A of title 38 (as added by section 10 of Public Law 100-198) requires generally that, before a VA-guaranteed loan may be assumed by the buyer of a veteran's home, the creditworthiness of the assumptor be established. Sale of the property without approval of the assumption based on the creditworthiness of the buyer would cause the loan to become due and payable in full.

Previously, there had been no restictions on the assumption of VA-guaranteed loans, and that is still the case with respect to vendee loans. In contract to conventional loans, which generally cannot be assumed, the purchaser of a veteran's home had been able to assume the VA loan without undergoing a credit check or meeting any underwriting criteria—as the purchaser of a home financed by means of a vendee loan currently can do. Although the free assumability of a loan may make it easier for a homeowner to esell, it also can enable persons to buy a home even though their creditworthiness would not otherwise allow them to qualify for the financing necessary to purchase a home. Such persons generally are more likely to default on the loans, resulting in the VA acquiring more foreclosed properties and incurring additional expense. East assumability also has fostered abuses such as "equity skimming", whereby the purchaser rents out the property but does not make the required mortgage payments, and eventually defaults on the loan, leaving the veteran liable to the VA for the amount remaining unpaid on the loan.

Committee bill

The potential abuses resulting from the free assumability of loans are as applicable to vendee loans as they have been to VA-guaranteed loans. Accordingly, in order to reduce foreclosures on vendee loans, the Committee bill would extend to persons assuming vendee loans sold with recourse the restrictions on assumability recently made applicable to persons who buy homes and assume VA-guaranteed loans from veterans. The 0.5-percent fee which that law imposed on buyers who assume VA-guaranteed loans also would be imposed on buyers who assume such vendee loans. The Committee adopted an amendment, in line with a recommendation from the VA, to provide that these requirements and fee would not extend to vendee loans sold without recourse, since the VA has no finan-

cial interest in, or any means to keep track of, such loans after they are sold.

Even with the imposition of these new creditworthiness and fee requirements for assumptions of VA vendee loans, the Committee believes that those loans would still provide attractive means of financing—and thus incentives for buying—VA-foreclosed properties as compared to conventional financing, since the VA interest rate generally will be lower and the VA credit-underwriting requirements may be more flexible. Additionally, section 3 of the Committee bill would also enable the VA to make vendee loans even more attractive, where necessary for competitive purposes, by offering the additional incentive of a below-market interest rate. Section 2 of Public Law 100–253, enacted on February 29, 1988, also would allow the Administrator, when and to the extent necessary to market foreclosed properties competitively, to offer vendee loans with no downpayment or a downpayment of less than 5 percent.

Cost Estimate

In compliance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the Committee, based on information supplied by the Congressional Budget Office (CBO), estimates that the costs resulting from the enactment of the Committee bill (as compared to costs under current law) during the first 5 years following enactment would not have a significant budgetary impact. The cost estimate provided by CBO follows:

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, DC 20515

March 28, 1988

Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Congressional Budget Office has reviewed S.2049, the Veterans' Home Loan Improvement Act, as ordered reported by the Senate Committee on Veterans' Affairs, March 17, 1988. Based on our review, we estimate that this bill would not have a significant impact on the federal budget, nor should it affect the budgets of state and local governments.

Section 2 of the bill would establish a commission to study the operation of the Loan Guaranty Revolving Fund (LGRF) and to recommend ways in which the fund could be made to operate more efficiently. The operating cost of the Commission should be less than $500,000 a year.

Section 3 would authorize the VA to make direct loans at interest rates below the market rate to finance the sale of real property held by the LGRF. Subsidized interest rates could be used, at the Administrator's discretion, when local market conditions make it difficult to sell properties at their appraised values. In their report on S.2049, transmitted to the Committee on February 29, 1988, the VA strongly opposed the enactment of this provision. They argued that subsidizing interest rates is a considerably more costly approach in the long run to increase property sales than the agency's current practice of reducing the sale price of properties. Because the VA opposes this discretionary authority, CBO does not expect that it would be used often enough to result in a significant budgetary impact.

Section 4 would allow the assumption of VA vendee loans only when the person assuming the loan pays a 1 percent origination fee and meets the same credit standards that were required of the original borrower. While this provision should reduce defaults on assumed vendee loans, it is only effective for assumptions of loans originated after March 1, 1988, and is therefore unlikely to significantly reduce costs in the next five years.

If you wish further details on this estimate, please call me or have your staff contact Kathleen Shepherd (226-2820).

Sincerely,

James L. Blum
Acting Director

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, DC 20515

April 22, 1988

Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On March 28, 1988, the Congressional Budget Office submitted a cost estimate of S.2049, the Veterans' Home Loan Improvement Act, as ordered reported by the Senate Committee on Veterans Affairs, March 17, 1988. In this estimate we explained that section 4 of the bill, relating to restrictions on the assumption of VA vendee loans, would only apply to the assumption of loans originated after March 1, 1988.

We are informed by Committee staff that the effective date of this provision has been changed so that only loans originated more than 45 days after the date of enactment would be affected. This change would not alter CBO's estimate that the bill would not have a significant budgetary impact.

If you wish further details on this estimate, please call me or have your staff contact Kathleen Shepherd (226-2820).

Sincerely,

James L. Blum
Acting Director

cc: Honorable Frank H. Murkowski
Ranking Minority Member

Regulatory Impact Statement

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee on Veterans' Affairs has made an evaluation of the regulatory impact which would be incurred in carrying out the Committee bill. The results of that evaluation are described below.

The Committee finds that the Committee bill would not entail any significant regulation of any individuals or businesses and—except for the provision requiring in cases of assumptions of vendee loans sold with recourse that the assumptor be determined in be creditworthy—would not entail any significant impact on the privacy of any persons. In a case in which a determination of creditworthiness is sought, the impact on the privacy of the assumptor would be of the same nature and extent as in the case of an individual applying for an original VA-guaranteed loan for the purchase of a home or for new financing for the purchase.

The Committee also finds that, except for the paperwork required in connection with such assumptions, the Committee bill would not result in any significant new paperwork. In those circumstances, the amount of paperwork involved would be reasonable in light of the beneficial objectives of the provision involved.

Tabulation of Votes Cast in Committee

Pursuant to paragraph 7 of rule XXVI of the Standing Rules of the Senate, the Committee reports that the Committee on Veterans' Affairs on March 17, 1988, voted unanimously to report S. 2049, with an amendment in the nature of a substitute, favorably to the Senate. The record vote of 11–0 to report S. 2049 favorably was as follows:

YEAS (11)	NAYS (0)
Alan Cranston	
Spark M. Matsunaga	
Dennis DeConcini	
George J. Mitchell	
John D. Rockefeller, IV	
Bob Graham	
Frank H. Murkowski	
Alan K. Simpson	
Strom Thurmond	
Robert T. Stafford	
Arlen Specter	

Agency Reports

In response to requests by Chairman Cranston, the VA reported its views on S. 2049 on February 29, 1988 and the Office of Management and Budget submitted its views on March 21, 1988. The February 29 and March 21 agency reports follows:

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

FEB 29 1988

Honorable Alan Cranston
Chairman, Committee on
Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This will respond to your request for a report by the Veterans Administration on S. 2049, 100th Congress, the "Veterans' Home Loan Program Improvements Act of 1988." This bill would establish an independent commission to assess the VA home loan program and would amend two provisions of the law governing that program.

The proposed commission would be composed of nine voting members appointed by the Administrator of VA not later than April 30, 1988. Four members are to be selected from the housing and home finance industry, and the remaining members will be chosen from the general public and veterans service organizations. The bill calls for VA to provide such professional, technical, and clerical assistance to the commission as may be required. The bill also specifies certain ex officio members of the commission.

Within 12 months after at least five members are appointed, the commission is to submit a report to VA and the Congressional Veterans Affairs Committees. This report will evaluate and make recommendations regarding a number of aspects of the VA Loan Guaranty program.

The Administrator will then be required to submit an interim and a final report to the Congress commenting on the commission's report, describing actions taken in light of the commission's findings and recommendations and making further recommendations. Such reports are due 2 and 6 months, respectively, after the commission issues its report.

The VA home loan benefit has been and continues to be of great importance to veterans. We are aware that, in recent years, costs of operating the program have increased. Although much of these cost increases have resulted from factors beyond VA

control, such as the downturn in the economy of the oil producing areas, VA would welcome a new perspective on how the program could be run more efficiently and at less costs to the taxpayers while continuing to provide a meaningful benefit to the Nation's veterans. Any recommendations produced by the proposed commission would be carefully considered.

While we do not believe that legislation is necessary to set up a commission, we do not object to section 2 of S. 2049. We recommend the following changes to section 2. The Administrator would likely appoint all nine members of the commission at the same time. If this is not possible, the first report should be due not later than 12 months after all 9 members have been appointed. Therefore, section 2(b) should be amended accordingly. We recommend that section 2(a)(3)(A) should be amended to include the President of the Government National Mortgage Association (GNMA) as an ex officio nonvoting member of the commission. Since GNMA guarantees the timely payment of principal and interest on mortgage-backed securities collateralized by VA guaranteed loans, GNMA has a direct interest in ensuring the integrity of the VA home loan program.

VA estimates that establishing this commission would result in costs of approximately $260,000 during Fiscal Years 1988-1990 while the commission is in existence.

Section 3 of S. 2049 would amend section 1816(d) of title 38 to authorize the Administrator to make vendee loans at below market interest rates if he Administrator determines that, in light of prevailing market conditions, such lower interest rates are necessary to market properties competitively, and that such action is in the bests interests of the Loan Guaranty Revolving Fund.

The Administration opposes this proposal and recommends that section 3 of S. 2049 be deleted.

Following the foreclosure of a loan guaranteed or made by VA, the Administrator frequently acquires the property that secured the loan. VA then sells these properties in an effort to recoup the Government's loss under the guaranty. In some cases, the VA provides seller financing, commonly known as a "vendee loan." VA normally makes vendee loans at the interest rate established for VA guaranteed home loans. This rate is usually slightly below the current market rate.

Vendee loans are not a benefit program for veterans. Rather, they are part of a salvage operation to generate funds for the

Loan Guaranty Revolving Fund. VA generally believes that vendee borrowers should not receive special benefits from the taxpayers not given to veterans using their earned housing benefits. Therefore, VA considers it proper that vendee borrowers should pay market interest rates on their loans.

In some areas where there is a surplus of homes for sale and a depressed economy; e.g., in the Houston, Texas, area, VA must use various techniques to expedite sales in order to compete with other major home sellers.

The VA believes that the best approach to achieve this is to reduce the selling price of the home. In fact, we are already doing just that. This results in less cost to the Government in the long run than offering below market rate financing by eliminating the risk of having to take back the home at some future time.

In general the Administration would prefer to minimize the use of the vendee loans and other types of seller financing. Direct financing runs the risk of defaults and further resale efforts, costs generally not reflected in the sales price. In addition, direct financing puts the VA in the loan servicing business--an activity more appropriately performed by the private sector.

Section 4 of S. 2049 would make section 1817A applicable to vendee loans. Although VA supports the concept behind this amendment, we must oppose this specific provision.

The recently enacted Public Law 100-198 added a new section 1817A to title 38. This new section requires that, before a veteran may transfer title to a property securing a VA guaranteed, insured, or direct housing loan, the new purchaser be approved from a credit standpoint unless the loan will be paid in full at closing. This does not apply to vendee loans.

VA believes it is proper that vendee loans be subject to similar restrictions on assumability now applicable to new guaranteed loans. Even absent such an amendment, VA is considering administratively placing such restrictions on vendee loans.

We note that section 1817A of title 38 mandates certain administrative procedures that VA does not consider appropriate for vendee loans. Under section 1817A, a veteran selling a home

subject to an existing VA loan must report the proposed sale. If the holder is an approved VA automatic lender, the holder must initially determine whether the purchaser is credit worthy. If the holder is not an automatic lender, VA must make this determination. In either event, if the purchaser is not approved, the parties may appeal to VA for reconsideration.

As we noted above, vendee loans are not a benefits program, and we do not believe the appellate rights provided to veterans under section 1817A are appropriate for vendee buyers. This is especially true if VA sells vendee loans without recourse. Once a loan is sold in this manner, there should be no further VA involvement. VA staff time should not be diverted from serving veterans to conducting two reviews of a proposed assumption of a loan already sold without recourse. Further, making the assumption of a loan subject to the approval of VA rather than the loan holder could make vendee loans less attractive to investors and reduce the yield of nonrecourse loan sales.

Accordingly, we recommend in lieu of section 4 of S. 2049 that section 1816(d) of title 38 be amended to make vendee loans due on sale (not assumable) unless VA, or the holder if the loan is sold without recourse, approves the transfer. We would additionally recommend that this amendment apply to loans closed pursuant to offers accepted by VA after April 15, 1988, rather than to any loans closed after such date as now provided in S. 2049.

In addition, we note that Public Law 100-198 amended section 1829 of title 38, United States Code, to impose a fee of 1/2 of 1 percent of the loan balance on persons assuming a loan to which section 1817A applies. The amendment made by section 4 of S. 2049 would also have the effect of imposing this fee on persons assuming VA vendee loans. VA considers it equitable that persons assuming vendee loans be subject to similar fees as persons assuming guaranteed home loans. We question, however, whether the Government should collect this fee on a loan which has been sold without recourse since VA would no longer have any interest or control over that loan.

VA estimates that section 4 of S. 2049 would result in some benefits savings. However, we do not at the present time collect data on the assumption of vendee loans. Therefore, we cannot quantify the level of expected savings.

5.

Honorable Alan Cranston

The Office of Management and Budget advises that there is no objection from the standpoint of the Administration's program to the submission of this report on S. 2049 to the Congress.

Sincerely,

THOMAS K. TURNAGE
Administrator

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 21 1988

Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510-6375

Dear Mr. Chairman:

This is in response to your request for the views of this Office on S. 2049, the "Veterans' Home Loan Program Improvements Act of 1988."

In its report to your Committee, dated February 29, 1988, the Veterans Administration (VA) advised that the VA:

-- did not object to section 2 of S. 2049, with certain recommended changes, although it did not believe legislation was necessary to set up a Commission on the Veterans' Administration Home Loan Guaranty Program, as provided in section 2;

-- opposed section 3 of the bill, which would authorize VA to make vendee loans at below market interest rates, under certain circumstances; and

-- opposed section 4 of the bill, which would make section 1817A of title 38 applicable to vendee loans, but recommended an alternative.

This Office concurs in the views expressed in the VA report on S. 2049.

Sincerely,

James C. Murr
Acting Assistant Director for
Legislative Reference

CHANGES IN EXISTING LAW MADE BY S. 2049 AS REPORTED

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 38—UNITED STATES CODE

* * * * * * *

PART III—READJUSTMENT AND RELATED BENEFITS

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CHAPTER 37—HOUSING AND SMALL BUSINESS LOANS

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SUBCHAPTER II—LOANS

* * * * * * *

§ 1816. Procedure on default

(a)(1) * * *

* * * * * * *

(d)(1) * * *

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(7) The Administrator shall make a loan to finance the sale of real property described in paragraph (1) of this subsection at an interest rate that is lower than the prevailing mortgage market interest rate in areas where, and to the extent, the Administrator determines, in light of prevailing conditions in the real estate market involved, that such lower interest rate is necessary in order to market the property competitively and is in the interest of the long-term stability and solvency of the Veterans' Administration Loan Guaranty Revolving Fund established by section 1824(a) of this title.

* * * * * * *

§ 1817A. Assumptions; release from liability

(a)(1) [If] *Except as provided in subsection (f) of this section, if* a veteran or any other person disposes of residential property securing a *loan* guaranteed, insured, or [direct housing loan obtained by a veteran] *made* under this chapter and the veteran or other person notifies the holder of the loan in writing before the property is disposed of, the veteran or other person, as the case may be, shall be relieved of all further liability to the Administrator with respect to the loan (including liability for any loss resulting from any default of the purchaser or any subsequent owner of the prop-

erty) and the application for assumption shall be approved if the holder determines that—

(A) the loan is current; and

(B) the purchaser of the property from such veteran or other person—

(i) is obligated by contract to purchase such property and to assume full liability for the repayment of the balance of the loan remaining unpaid and has assumed by contract all of the obligations of the veteran under the terms of the instruments creating and securing the loan; and

(ii) qualifies from a credit standpoint, to the same extent as if the purchaser were a veteran eligible under section 1810 of this title, for a guaranteed or insured or direct loan in an amount equal to the unpaid balance of the obligation for which the purchaser is to assume liability.

* * * * * * *

[(f) This section shall apply only to loans for which commitments are made on or after March 1, 1988.]

(f)(1) This section shall apply—

(A) in the case of loans other than loans to finance the purchase of real property described in section 1816(d)(1) of this title, only to loans for which commitments are made on or after March 1, 1988; and

(B) in the case of loans to finance the purchase of such property, only to loans which are closed more than 45 days after the date of the enactment of the Veterans' Home Loan Program Improvements Act of 1988.

(2) This section shall not apply to a loan which the Administrator has sold without recourse.

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